DOME PETROLEUM LIMITED 1973 ANNUAL REPORT

Dome Petroleum Limited

Directors

Norman J. Alexander,
Winnipeg, Manitoba
Investment Consultant

Fraser M. Fell, Q.C.
Toronto, Ontario
Partner; Fasken & Calvin

John P. Gallagher,
Calgary, Alberta
President of the Company

John L. Loeb,
New York, N.Y.
Senior Partner; Loeb, Rhoades & Co.

A. Bruce Matthews,
Toronto, Ontario
Executive Vice-President;
Argus Corporation

Clifford W. Michel,
New York, N.Y.
Chairman of the Board; Dome Mines Limited
General Partner; Kuhn, Loeb & Co.

William F. Morton,
Winchester, Mass.
Investment Manager

James B. Redpath,
Toronto, Ontario
President; Dome Mines Limited

Head Office

706 - 7th Avenue S.W.
Calgary, Alberta T2P 0Z1

Registrars & Transfer Agents

Canada Permanent Trust Company
Toronto, Montreal, Regina, Calgary

The Bank of New York
New York, N.Y.

General Counsel

Fasken & Calvin
Toronto, Ontario

Officers

Clifford W. Michel,
Chairman of the Board

John P. Gallagher,
President

William E. Richards,
Executive Vice-President

Charles S. Dunkley,
Senior Vice-President

Donald M. Wolcott,
Senior Vice-President

John Andriuk,
Vice-President, Exploration

John M. Beddome,
Vice-President, Pipelines

Raymond C. J. Jaenen,
Vice-President, Oil Production and Engineering

Kenneth A. Stephens,
Vice-President, Administration

Andrew H. Younger,
Vice-President, Gas Production and Engineering

James B. Redpath,
Vice-President

Henry T. Astle,
Treasurer

Harry M. Eisenhauer,
Secretary

Fraser M. Fell, Q.C.
Assistant Secretary

Auditors

Clarkson, Gordon & Co.
Calgary, Alberta

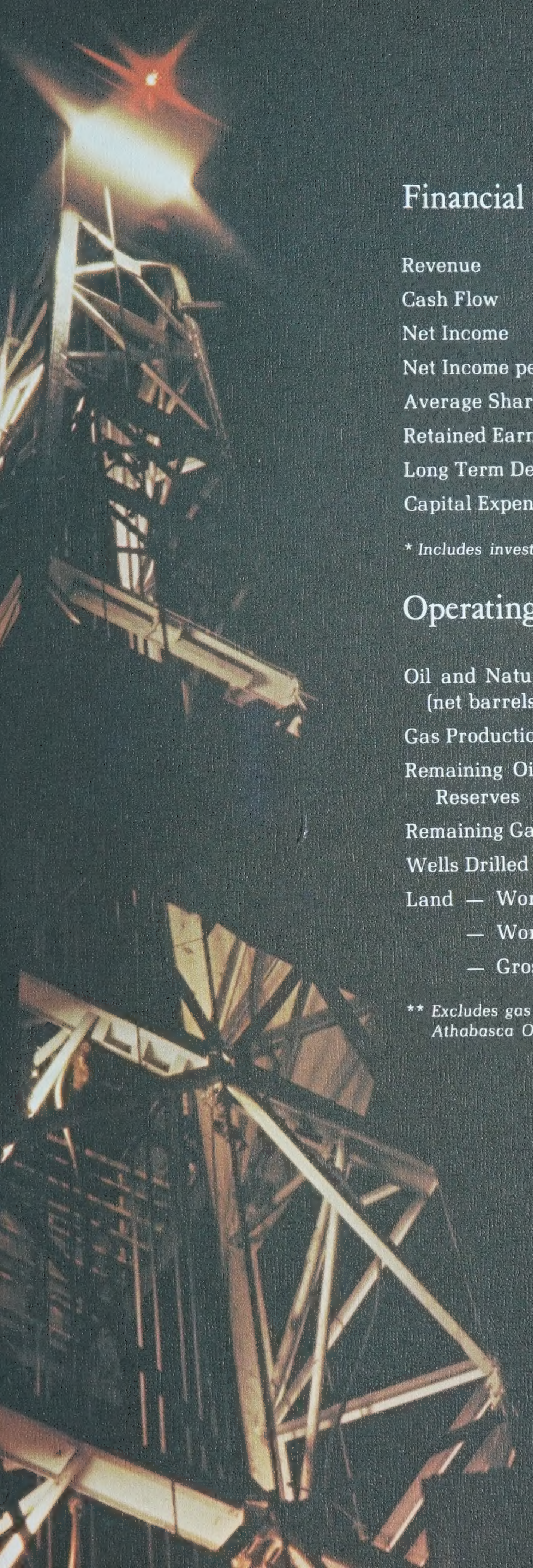
Stock Listings

Toronto Stock Exchange
Montreal Stock Exchange
American Stock Exchange, Inc.

Annual Meeting

The Annual and Special General Meeting of the Shareholders of the Company will be held at the Royal York Hotel, Toronto, Ontario, on April 29, 1974, at 11:30 a.m. A formal notice of meeting and proxy form are enclosed with this report. Please return your proxy if you are unable to attend the meeting.

Front Cover
Cargo unloading at Rea Point, Melville Island, Canadian Arctic Islands.



Comparative Highlights

Financial

	1973	1972
Revenue	**$ 71,930,000**	$52,736,000
Cash Flow	**$ 27,264,000**	$17,358,000
Net Income	**$ 20,205,000**	$11,033,000
Net Income per share	**$1.88**	$1.07
Average Shares Outstanding	**10,745,000**	10,316,000
Retained Earnings	**$106,750,000**	$86,545,000
Long Term Debt	**$ 94,514,000**	$83,079,000
Capital Expenditures *	**$ 72,369,000**	$37,452,000

** Includes investment in Panarctic Oils Ltd.*

Operating

	1973	1972
Oil and Natural Gas Liquids Production (net barrels per day)	**30,493**	28,020
Gas Production (million cubic feet per day)	**136.2**	135.3
Remaining Oil and Natural Gas Liquids Reserves (gross barrels) **	**117,000,000**	123,200,000
Remaining Gas Reserves (billion cubic feet) **	**1,740**	1,350
Wells Drilled	**143**	103
Land — Working Interest, Gross Acres	**42,297,000**	43,268,000
— Working Interest, Net Acres	**20,981,000**	23,656,000
— Gross Royalty Acres	**43,383,000**	45,191,000

*** Excludes gas reserves in the Arctic Islands and heavy oil reserves in the Athabasca Oil Sands and at Hughenden, Alberta.*

Report of the Directors

During 1973, your Company continued its expansion in all phases of operations.

Revenues totalled $71,930,000 compared with $52,736,000 in 1972. Cash flow, after interest, increased to $27,264,000 from $17,358,000 in the previous year and net income amounted to $20,205,000 compared with $11,033,000 in 1972. The 1973 return on total mid-year net capital invested was 11.6% before tax and 6.5% after calculated tax. In 1972 the return was 7.8% before tax.

Capital expenditures, including exploration, totalled $72,369,000 during 1973, compared with $37,452,000 in 1972. It is anticipated that capital expenditures in 1974 will exceed those of 1973.

Production of oil, natural gas liquids and oil equivalent of gas averaged 37,498 barrels per day, compared with 34,955 barrels per day in 1972.

Two major gas discoveries were made by Dome on its 91.6% owned acreage on King Christian Island in the Arctic Islands. In addition, Dome participated in 12 other gas discoveries and 1 oil discovery in Western Canada.

Major additions were made to Dome's **Natural Gas Liquids System**; and deliveries of natural gas liquids commenced to two synthetic natural gas plants in the United States.

* * *

The year 1973 witnessed revolutionary changes in the international petroleum industry. After twenty years of static prices, during which Canadian oil declined in value relative to the cost of living by approximately 50%, the world price of crude oil more than tripled. Although the occasion for this change was the renewal of the Arab-Israeli war, the price increase was long overdue, as crude oil had been selling well below its competitive fuel value for many years.

Over the long term, the decision by the major oil producing and exporting countries (OPEC) to limit oil production and to increase its price should be highly beneficial to the economies of both Canada and the United States. There is now a general recognition in both these countries of the value of an indigenous energy supply and the necessity of becoming self sufficient in energy resources despite the considerably higher future costs.

Canadian crude oil prices have been temporarily frozen by the Canadian Government in an effort to insulate the Canadian economy from the effects of rapidly escalating energy costs — at least until world prices have stabilized. Responsible Government officials, however, have acknowledged the need to allow Canadian crude oil prices to move, over a period of the next few years, to a level approximating world competitive prices.

Natural gas and natural gas liquids prices have followed a similar trend to that of crude oil but for different reasons. For many years Canada has

had a large over-supply of natural gas with its surplus finding a market in the United States. As a result, the price of Canadian gas had tended to be set by the United States market. The United States Government has generally pursued a policy of regulating the price of natural gas at artificially low prices. This policy of deliberately depressing the price of natural gas has led to an inflated demand, restricted exploration, and inevitably, an acute shortage, despite a relatively large, untested gas potential in the United States.

The gas shortage has resulted in a sudden increase in U.S. gas prices, thus exerting great upward pressure on Canadian prices which the Government has endeavoured to dampen by restricting exports. It is the stated policy of the Canadian Government, however, to allow gas prices to rise to parity with crude oil prices.

It is important that the Canadian Government clearly enunciates a long-term realistic pricing policy for petroleum products produced in Canada in order to encourage the continued and accelerated expenditure of high-risk dollars essential for the exploration and development of Canada's great, but undiscovered and undeveloped, energy potentials. If the Government decides that it is in the public interest for Canadian consumers to pay less for energy than non-Canadian consumers, a subsidy or rebate should be made to the Canadian consumer on all forms of energy. This rebate initially could be funded out of Canada's general revenue but ultimately could be financed from the large potential Government income on oil, gas and other forms of energy produced from federally owned lands.

Canada has vast known and potential reserves of energy resources such as coal, uranium, hydro-electric power and petroleum. In order that each of these forms of energy be allowed to supply its natural economic markets, the exploration, development and marketing must be carried out on a competitive basis; and federal subsidies, if any, must be applied equally to all forms of energy.

Your Company is confident that the fundamentals of the Canadian oil and gas industry are sound and that the various levels of Government will adopt policies which will enable this segment of the economy to fulfil its important function. As a result, your Company is expanding its exploration and development expenditures throughout Canada.

* * *

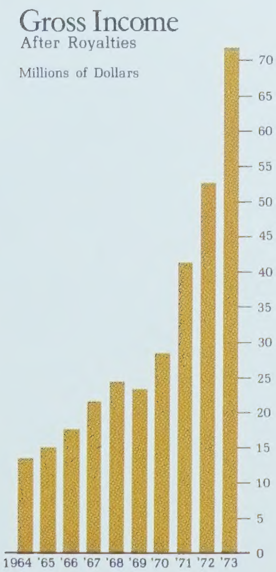
In view of Dome's recent growth and enlarged programs, five new vice-presidencies were created as detailed under the list of officers on the inside front cover.

One of Dome's greatest potentials for growth is the quality of its staff. It is their resourcefulness and dedication that has contributed most to the Company's success.

C. W. MICHEL — *Chairman of the Board*

J. P. GALLAGHER — *President*

March 20, 1974



Land Holdings Summary

AREA	1973			1972		
	Working Interest		Royalty	Working Interest		Royalty
	Gross Acres	Net Acres	Gross Acres	Gross Acres	Net Acres	Gross Acres
Alberta	2,729,000	1,158,000	736,000	2,800,000	1,878,000	866,000
British Columbia	640,000	349,000	893,000	2,035,000	1,750,000	853,000
Saskatchewan	376,000	159,000	93,000	170,000	58,000	390,000
Manitoba	81,000	39,000	—	19,000	11,000	64,000
Ontario and Hudson Bay	5,000	5,000	9,090,000	5,000	5,000	9,330,000
Arctic Islands	23,327,000	10,200,000	16,256,000	23,189,000	10,794,000	16,816,000
Beaufort Sea	2,489,000	2,360,000	2,907,000	2,489,000	2,360,000	2,907,000
Mackenzie Valley	2,279,000	730,000	3,495,000	2,418,000	936,000	3,489,000
Canadian East Coast	9,830,000	5,722,000	9,904,000	9,831,000	5,666,000	10,467,000
Alaska	191,000	140,000	—	184,000	139,000	—
Other United States	299,000	113,000	9,000	77,000	53,000	9,000
North Sea (U.K.)	51,000	6,000	—	51,000	6,000	—
Total	42,297,000	20,981,000	43,383,000	43,268,000	23,656,000	45,191,000

Exploration Review

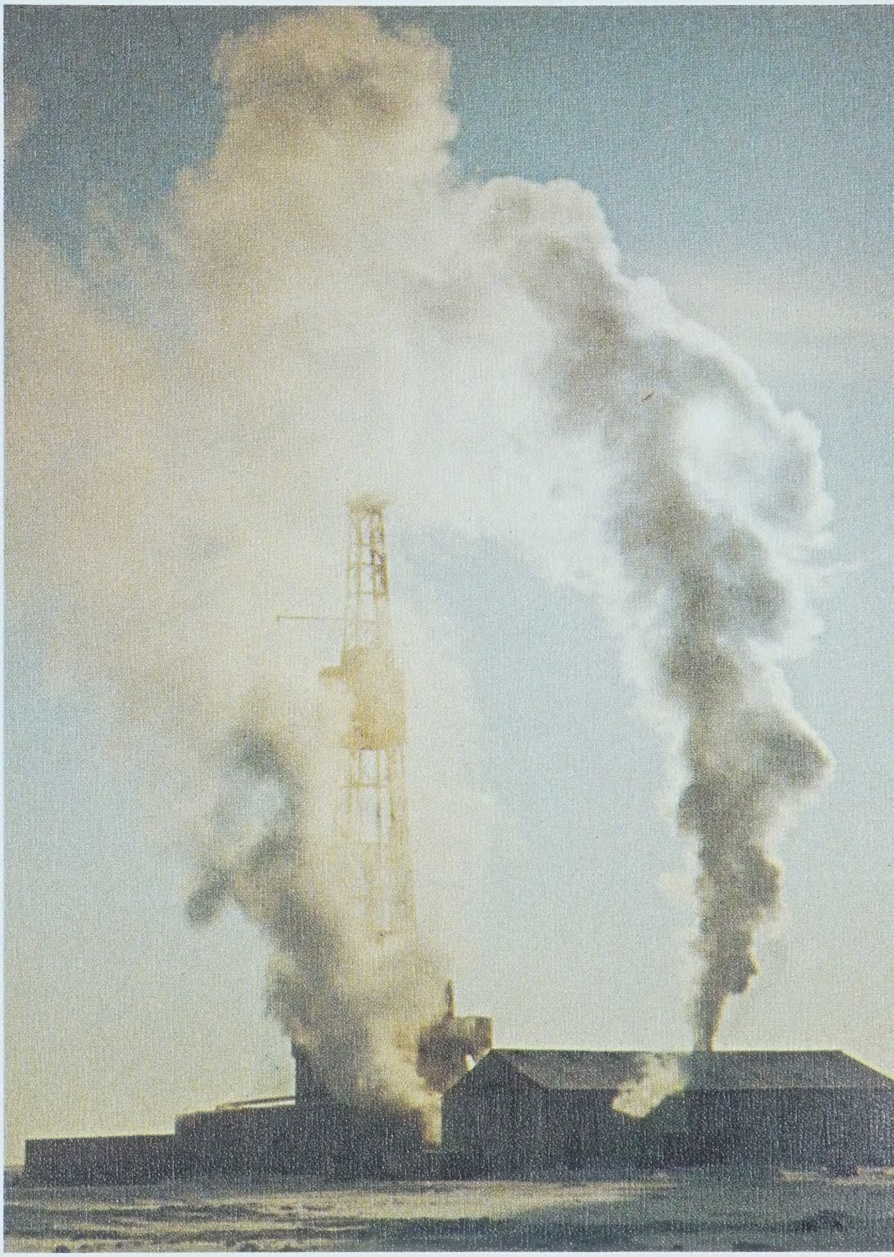
Introduction

During 1973, operational and financial planning were severely handicapped by the uncertainties of Governmental policies with respect to oil and gas prices, export taxes, royalty rates and federal land and drilling regulations. In the belief, however, that the Federal and Provincial Governments will adopt realistic and competitive policies, the Company continued to expand its exploratory efforts.

Dome's exploration activities in 1973 were highlighted by the discovery of major gas reserves in the Arctic Islands in the first two wildcat wells drilled by the Company on King Christian Island. In addition, through its share holdings in Panarctic Oils Ltd., Dome participated in the drilling of three gas wells and a significant oil show in the Arctic Islands.

Other significant gas and oil discoveries were made in northern and central Alberta at Josephine, Sneddon, Saddle Hills and Niton; and four successful gas wells were drilled in the Fort St. John area of northeastern British Columbia.

During the year Dome's exploratory drilling resulted in one oil well and 14 gas wells out of a total of 63 wells drilled, of which 38 were drilled at no cost to the Company.

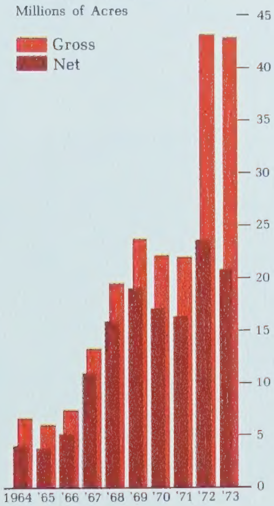


Dome's Sutherland gas discovery on King Christian Island has added considerably to the Company's reserves and to the threshold volume of gas required to build a pipeline from the Arctic Islands to southern markets.

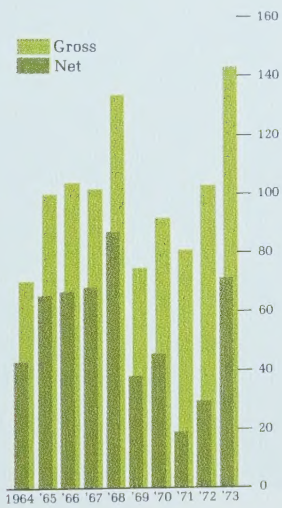
Land Holdings

Excludes Royalty Interest

Millions of Acres



Wells Drilled



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Arctic Islands

The Company's initial major gas discovery at Wallis on King Christian Island early in 1973 was followed by another success at its second location 12 miles to the south on the large Sutherland structure. In this latter well, gas zones have been penetrated between 2,000 feet and 3,000 feet, and between 7,000 feet and 10,000 feet. The well is currently cased to 10,165 feet and drilling is continuing to lower prospective horizons previously untested in this part of the Sverdrup Basin. All gas zones will be fully evaluated on completion of drilling. The Sutherland and Wallis wells are located on Dome's 91.6% owned 190,200 acre permit block and are the initial wells of a $30,000,000, five-year exploratory drilling program financed by Canadian subsidiaries of three U.S. gas transmission companies.

Dome also conducted or participated in seismic surveys to aid in the selection of future drilling locations on King Christian, Ellef Ringnes, Meighen and Melville Islands.

Panarctic Oils Ltd. (a consortium of private companies and the Canadian Government), in which Dome has a 4.04% interest, added substantial gas reserves during the year. A successful gas well was drilled on Thor Island, off the west coast of Ellef Ringnes Island, 12 miles south of Dome's 331,400 acre block of permits (203,700 net acres). At Hecla, 25 miles west of the Drake Point gas field on Melville Island, a delineation well has confirmed the presence of a large structure containing major reserves of gas, and further delineation drilling is under way on sea-ice eight miles offshore to the west.

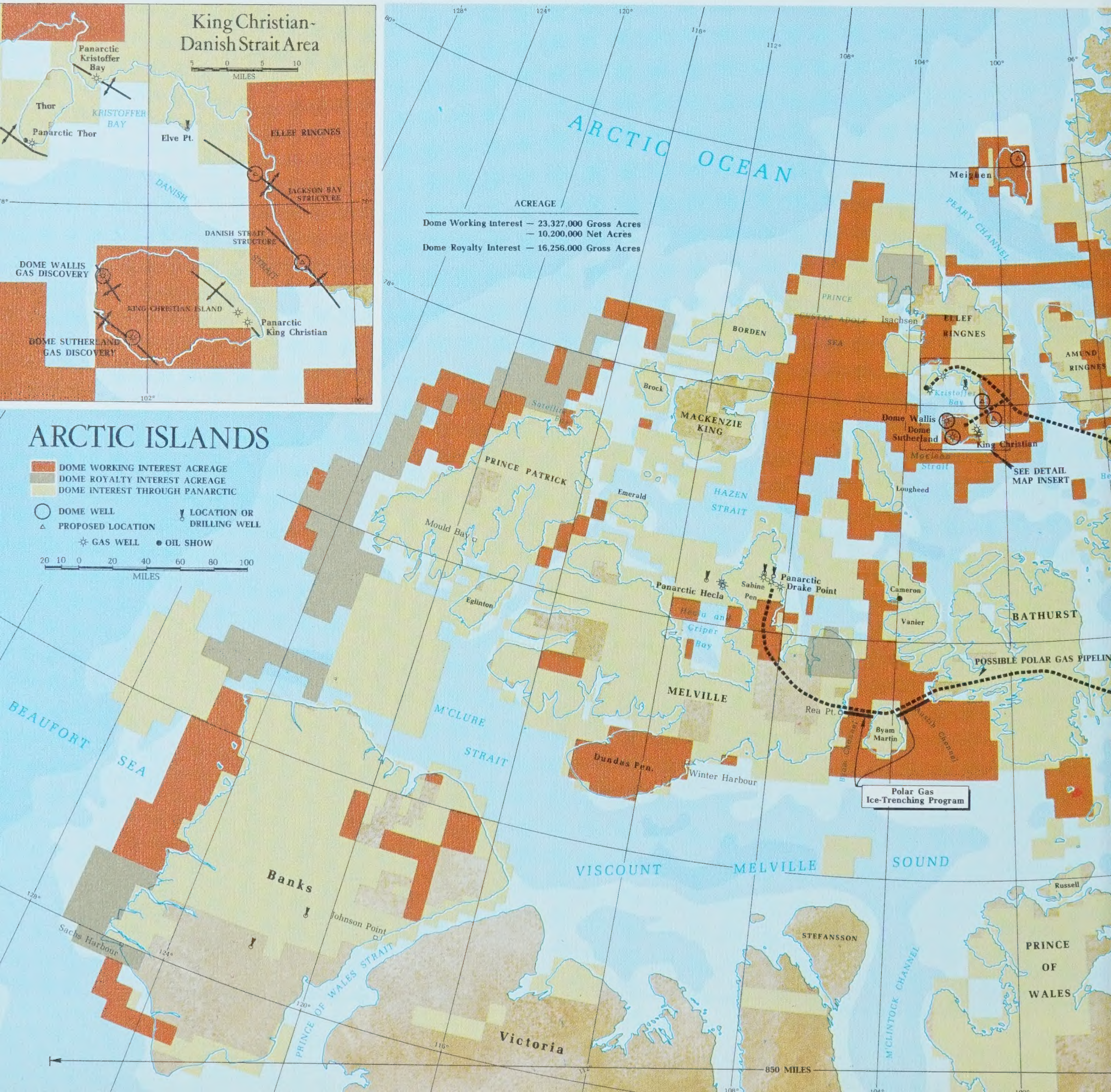
1. *Seismic surveys on inhospitable Meighen Island have located several structures on Dome acreage, one of which is scheduled for drilling in the near future.*
2. *Rugged barren terrain of western Melville Island increases the cost of moving equipment.*
3. *Dome drill-site on Melville Island. The absence of daylight during the winter months increases the difficulties of drilling operations.*
4. *Dome geological camp in the Arctic Islands. The use of helicopters has enabled Company geologists to map large areas during the short summer.*

Panarctic recently announced that its Benthorn well on Cameron Island (northwest of Bathurst Island) had recovered significant quantities of high gravity oil on a drillstem test of a Devonian reef. Although non-commercial at this location, the discovery should give considerable impetus to exploration for older Paleozoic reservoirs in the Arctic Islands. Dome holds 517,500 acres of permits (196,900 net acres) in the vicinity of Cameron Island, including a wholly-owned permit

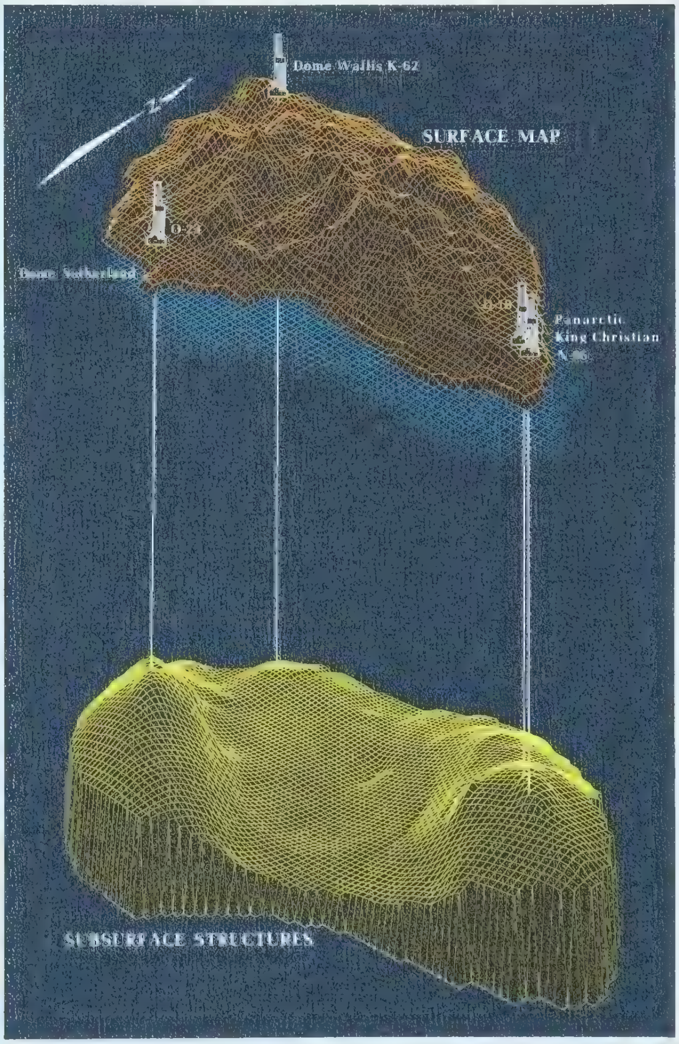
Large freighter aircraft are the lifeline of Arctic operations, moving thousands of tons of drilling equipment and supplies every year.

of 30,400 acres approximately three miles from the Benthorn well.

Through Panarctic Oils Ltd., Dome participated in the Polar Gas Project formed in 1972 to plan the research and engineering for the transportation of natural gas by pipeline from the Arctic Islands. The Polar Gas Pipeline will require a threshold gas reserve of approximately 30 trillion cubic feet before construction is economically practical. About half this volume has been found to date by Panarctic and Dome.



Ice-trenching experiments carried out by the Polar Gas Project in 1973 demonstrated the feasibility of laying pipelines through sea-ice between the Arctic Islands and the mainland of Canada.



KING CHRISTIAN ISLAND

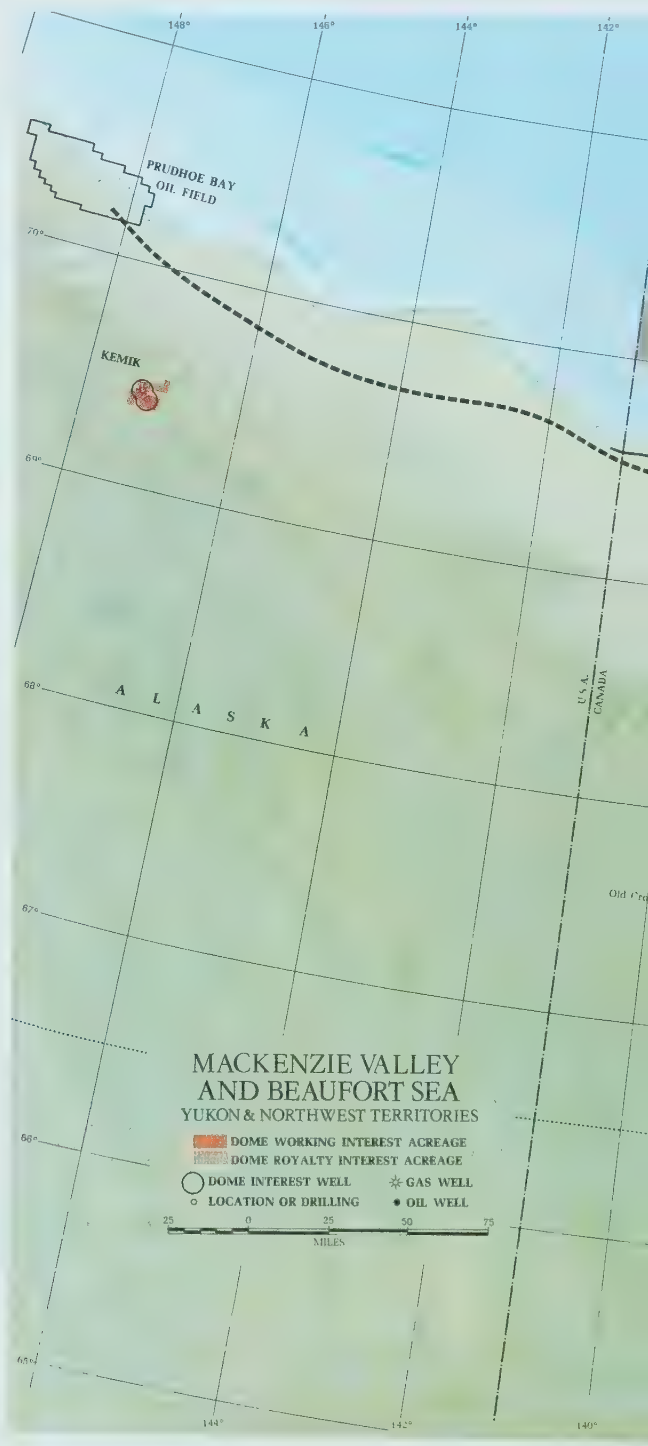
By exaggeration of the vertical scale, computer plots emphasize the nature of subsurface structures in which gas was discovered on King Christian Island.

Mackenzie Delta and Beaufort Sea

The industry has now discovered sufficient gas reserves in the Mackenzie Delta area of Northern Canada and on the North Slope of Alaska to justify a large diameter pipeline to markets in Canada and the United States. To date, over $50,000,000 has been spent by industry on the design and testing of a pipeline system to carry gas to markets with minimum disturbance to the natural terrain and wildlife. Construction of this line could commence as early as 1975 and would permit production of Dome's gas reserves at Kemik on the North Slope where a follow-up well to the 1972 gas discovery well is planned for the coming drilling season.

The gas and oil discoveries of the Mackenzie Delta, enhanced by the recent triple-zone oil and gas discovery at the Adgo artificial drilling island in the Beaufort Sea, have the potential of developing into one of the major producing areas of North America. Drilling results from the past few

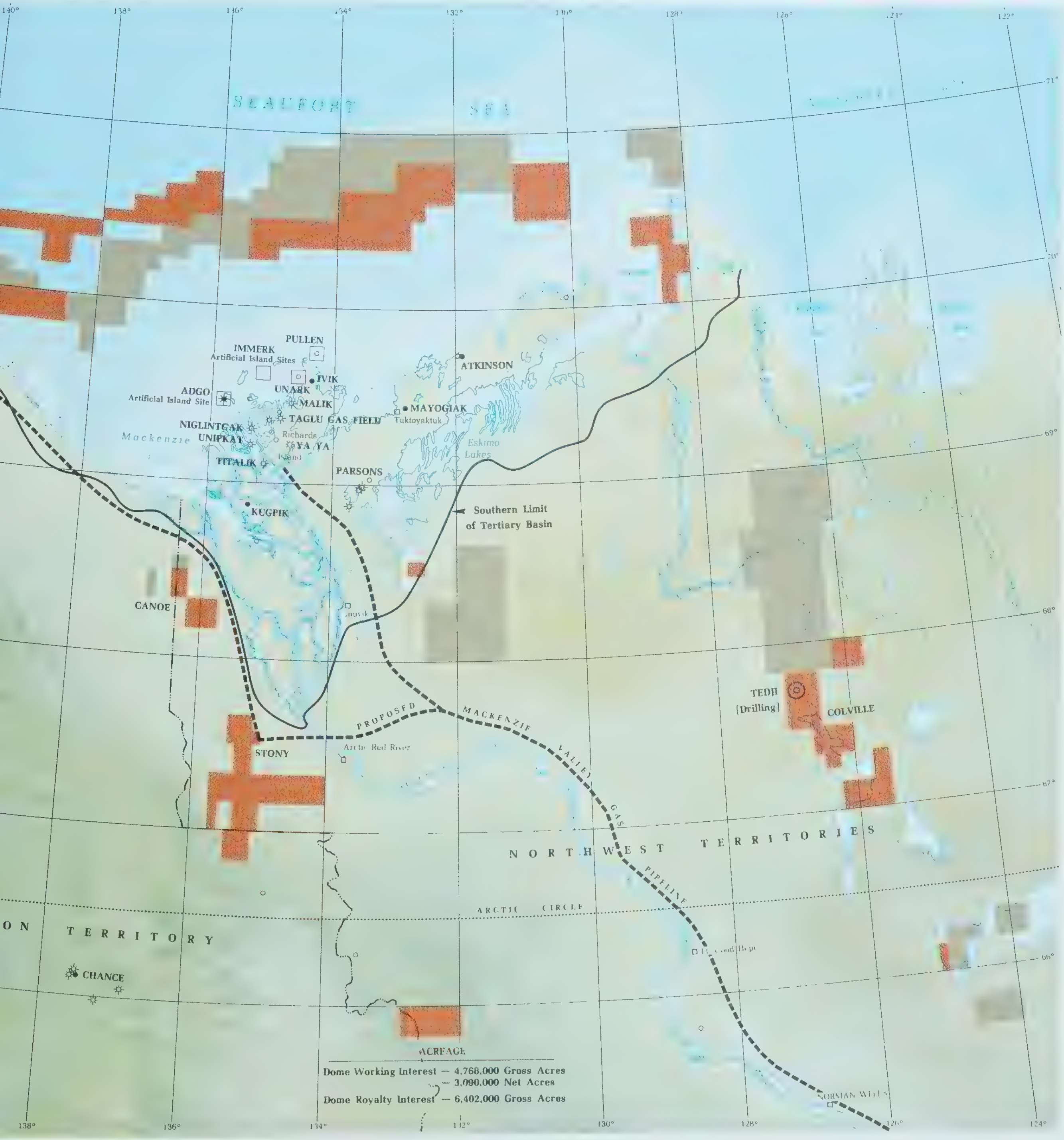
Exhaustive industry studies have demonstrated the feasibility of laying pipelines on the delicate terrain of the Mackenzie Delta and River Valley with minimum disturbance to the environment.



years have indicated that the presence of oil and gas in rocks of Tertiary age is increasing in a northerly direction towards Dome's extensive offshore acreage. The Company owns 2,489,000 acres (2,360,000 net acres) in this offshore area and has obtained over 3,000 miles of marine seismic data over its acreage. Several large structures have been indicated and the site of the first offshore well from a drilling vessel in the Beaufort Sea has been selected on Dome acreage. It is anticipated that drilling will commence in 1976.

Alberta

At *Josephine*, in the Peace River area of Alberta, Dome participated in the drilling of a multi-zone gas discovery located on a 10,200 acre block in which the Company holds a 51% working interest. Dome is participating in the drilling of

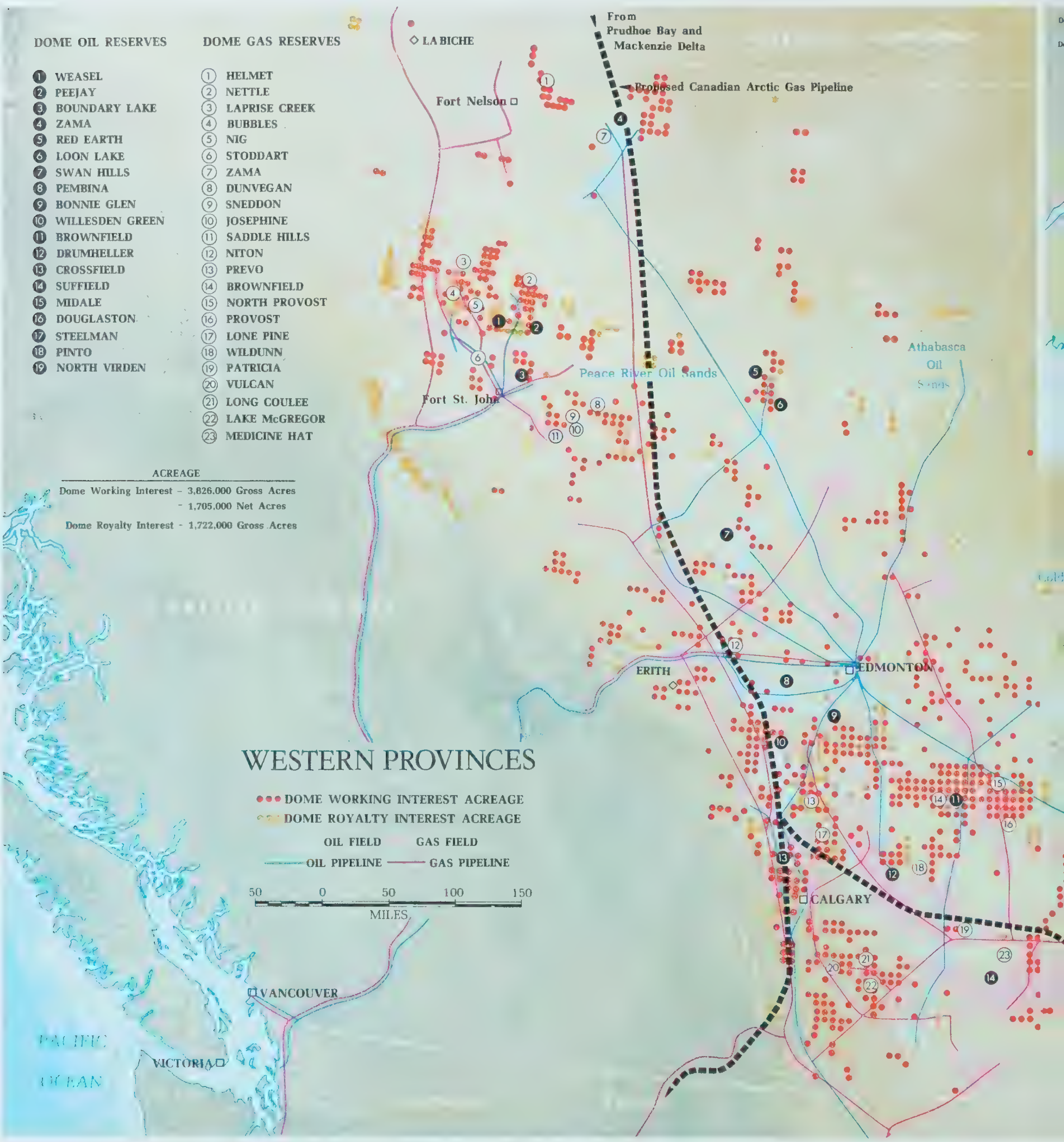


three additional exploratory wells to evaluate adjacent acreage.

Twenty miles southwest of Josephine, Dome participated in the discovery of a multi-zone gas and oil discovery at *Sneddon*, where varying interests are held in 11,800 acres (2,800 net acres). Additional drilling is planned for 1974, by means of which the Company can increase its interests in a further 25,600 acres and earn 9,600 net acres of petroleum and natural gas rights in this area.

Also in the Peace River area, at *Saddle Hills*, Dome followed up its 1972 gas discovery by drilling two more successful gas wells, one of which encountered production in two zones. The Company now holds a 50% working interest in 21,600 acres in the area and further delineation drilling is planned.

At *Niton*, in central Alberta, the Company has interests in three completed gas wells and has recently purchased additional acreage in the area to bring the total to 21,400 acres (9,300 net



acres). It is estimated that Dome owns approximately 30% of the reserves found to date in the Niton gas field.

A significant 15,000 foot exploratory test is being drilled, at no cost to Dome, on Company acreage at *Erith* in west-central Alberta. Recently, other companies made a deep Devonian gas discovery near Dome's holdings in the area totalling 21,900 acres (9,600 net acres). Dome has farmed out an interest in a portion of its holdings in this high-risk, high-cost area in return for the drilling of the 15,000 foot test well.

British Columbia

The Company's exploratory drilling program for shallow gas in the *Fort St. John* area of northeastern British Columbia continued successfully during 1973 and early 1974, during which period four new gas accumulations were discovered in the *Nettle* and *Dahl* areas.

Near the Yukon border at *LaBiche*, an 18,000 foot exploratory test is being drilled at no cost to Dome on a large structure similar to the Beaver River gas field 15 miles to the northwest. The well is located on a 7,000 acre block of leases in which Dome will retain a 9% working interest after completion of the well.

Canadian East Coast

Dome holds 9,830,000 acres (5,722,000 net acres) on the continental shelf of Canada's East Coast where industry activity is increasing following several highly promising indications of commercial oil and natural gas in exploratory wells drilled in the past few years. Prospects on the Company's 2,472,000 acres (989,000 net acres) on the Labrador Shelf have been considerably enhanced by encouraging hydrocarbon shows in the Bjarni well to the north. Seismic surveys were conducted in 1973 on Dome's Burgeo Bank acreage and these data are currently being evaluated.

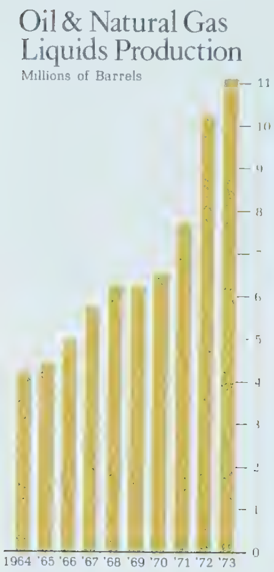
North Sea

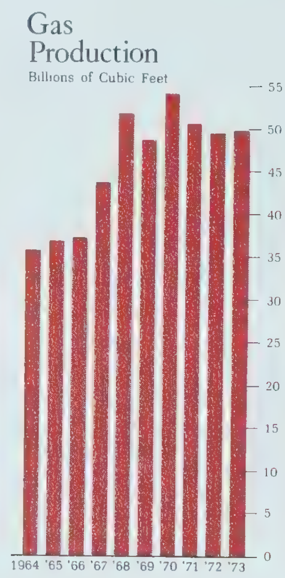
Additional seismic data have been obtained on a 51,000 acre block in the United Kingdom sector of the North Sea (in which Dome holds an 11¼% interest). It is anticipated that an exploratory well will be drilled on this block within the next two years.

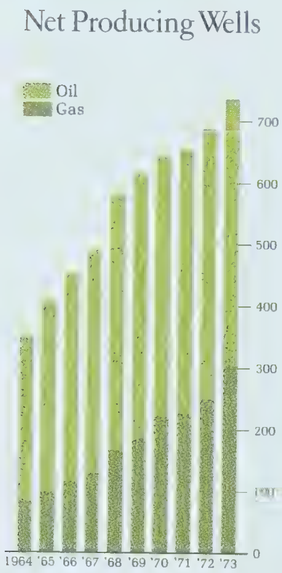
Minerals

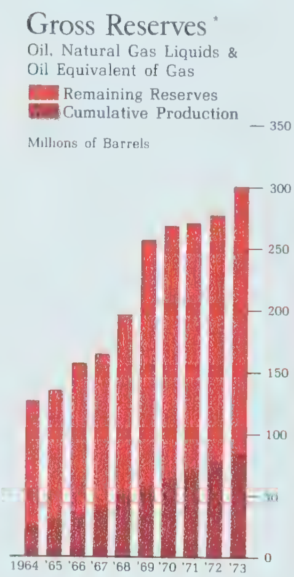
Dome is continuing its 33% participation in a minerals exploration program conducted by Dome Mines Limited on a variety of prospects in Canada and Alaska.

Operations Review









* Excludes Arctic Gas Reserves and Heavy Oil Reserves.

Production

Production of oil and natural gas liquids amounted to 11,130,000 barrels (30,493 barrels per day) in 1973, up from 10,255,000 barrels (28,020 barrels per day) in 1972. Natural gas production amounted to 49.7 billion cubic feet (136.2 million cubic feet per day), compared with 49.5 billion cubic feet (135.2 million cubic feet per day) during the previous year.

After deducting 1973 production, the gross recoverable reserves amounted to 117,000,000 barrels of oil and natural gas liquids and 1.74 trillion cubic feet of natural gas. Proved oil, natural gas liquids, and oil equivalent of gas reserves at the end of 1973 totalled 213,700,000 barrels, compared with 198,200,000 barrels in 1972. These totals exclude two large gas discoveries on King Christian Island in the Arctic Islands and heavy gravity oil reserves at Hughenden and in the Athabasca Oil Sands in Alberta. The reserves are stated in gross units as future royalty rates of the various Provinces are difficult to estimate.

Higher natural gas prices are encouraging a fuller development of the Company's reserves. In 1973, Dome completed a fifty well program in the Provost field of Alberta to increase deliverability and ultimate recovery. The benefit of this increased production will be reflected in 1974 revenues.

At the Laprise Creek gas field in British Columbia, engineering studies for further development of this field were completed in 1973 and four new wells are scheduled to be drilled in 1974.

In the southeastern portion of Alberta, the Company drilled six successful development wells in 1973 in the shallow-gas area near Medicine Hat. A twenty seven well development program is planned for this area during 1974. It is anticipated that this gas will be on stream before year end. In addition, a nineteen well program is planned to increase deliverability from Dome's gas reserves at Patricia to the north of Medicine Hat.

Dome Interest Gas Plants

1. *Empress Extraction Plant; Empress, Alberta.*
2. *Cochrane Extraction Plant; Cochrane, Alberta.*
3. *Vulcan Gas Processing Plant; Vulcan, Alberta.*
4. *Sarnia Fractionation Plant; Sarnia, Ontario.*
5. *Steelman Gas Conservation Plant; Steelman, Saskatchewan.*
6. *Edmonton Extraction-Fractionation Plant; Edmonton, Alberta.*






Natural Gas Liquids

Dome's Natural Gas Liquids System, an integrated network of gas plants, pipelines and storage facilities extending from Alberta to Sarnia, Ontario, continued to expand during the past year.

Development of underground storage facilities at Fort Saskatchewan, Alberta, has commenced. These facilities will supplement surface storage at Edmonton and will have an ultimate capacity of approximately one million barrels.

Additional pressure storage capacity, totalling 42,000 barrels at Edmonton, Alberta and 100,000 barrels at Superior, Wisconsin, was completed in August, 1973 to accommodate the increased volume of natural gas liquids moving through the system.

The 205 mile Eastern Delivery Pipeline System connecting the Sarnia plant with Marysville, Michigan; Windsor, Ontario; and Green Springs, Ohio was completed.

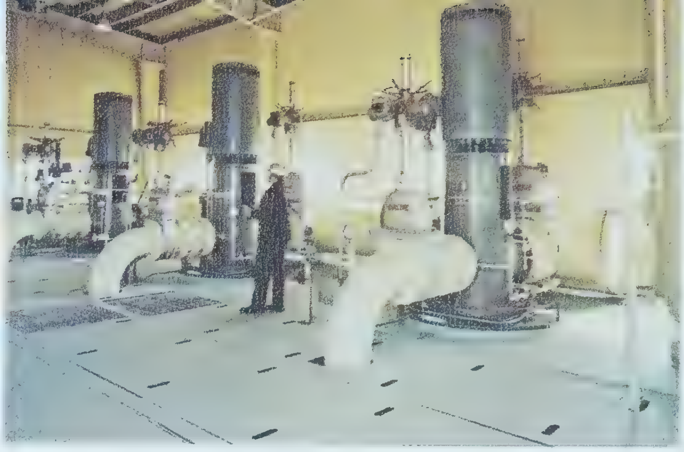
Delivery of feedstock commenced in late 1973 to the synthetic natural gas plants of Consumers Power Company at Marysville, Michigan and Columbia LNG Corporation at Green Springs, Ohio.

In April, 1974, Dome will begin taking delivery at Marysville of natural gas liquids from Kalkaska, Michigan. These liquids will move through Dome's Eastern Delivery System to Sarnia, Windsor and Green Springs.

Increased production from Dome's plants in Western Canada and new long term purchase commitments will necessitate the expansion of the Sarnia fractionation plant. The Company and its partners have approved an increase in capacity to 100,000 barrels per day from the current capacity of 55,000 barrels per day. Construction will take place throughout the current year and the new facilities should be on stream in 1975. Dome's share of the expanded capacity will be approximately 40%.

A decision is pending from Canada's National Energy Board for the approval of the export of approximately 40,000 barrels per day of ethane over a ten-year period and for the construction of a dual pipeline system from Edmonton, Alberta, to Sarnia, Ontario, to carry ethylene and a mixture of ethane, propane and butane to eastern Canadian and U.S. markets. If approval is received, construction of this 2,000 mile pipeline system is scheduled to commence in 1974 and to be completed in late 1975.

Eastern Delivery System under construction, summer 197



pane-butane storage terminal at Churchill, Manitoba. *Transfer pumps at Superior, Wisconsin, storage station.*

Financial

The effect of more than $200,000,000 of capital investments made by your Company during the last five years is reflected in the 1973 financial statements:

- Revenue totalled $71,930,000 compared with $52,736,000 in the previous year.
- Cash flow after interest amounted to $27,264,000 compared with $17,358,000 in 1972.
- Net income amounted to $20,205,000 ($1.88 per share) compared with $11,033,000 ($1.07 per share) in 1972.
- Capital expenditures, including exploration and investments in Panarctic Oils Ltd., totalled $72,369,000, up substantially from $37,452,000 in the previous year.
- Long term debt, including deferred production income and amounts due in 1974, totalled $104,229,000, an increase of $7,228,000 from the previous year-end.

On June 1st, $15,000,000 of 5% convertible income debentures held by Dome Mines Limited and its subsidiaries since May 15, 1968 were converted into 534,567 common shares of Dome Petroleum Limited at a price of $28.06 per share. This conversion brings the total shares outstanding at year-end to 11,217,703 and will result in an annual saving of $750,000 in interest expense.

The net income reported in 1973 is before income tax, as no tax is currently payable by the Company. Full deferred tax would have amounted to $8,500,000 in 1973 and $4,554,000 in 1972. A study currently being carried out by industry associations is expected to make recommendations shortly concerning the manner in which income tax should be treated in the financial statements of oil and gas companies. If this study recommends a change in financial reporting, the Company will follow whatever practice is generally accepted by industry.

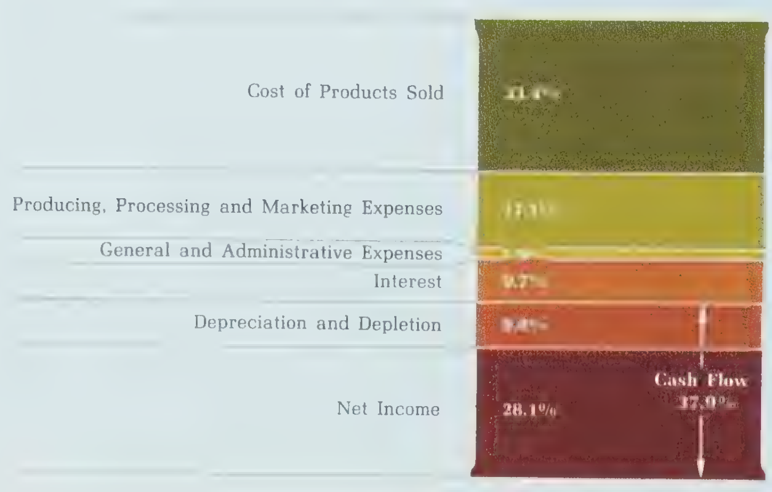
Cumulative Gross Investment

(At Original Cost)

Capital Expenditures*

* Includes Investment in Panarctic Oils Ltd.

Division of 1973 Gross Income



Consolidated Statement of Income

YEARS ENDED DECEMBER 31, 1973 AND 1972

	1973	1972
REVENUE	**$71,930,000**	$52,736,000
DEDUCT:		
Cost of products sold	**24,005,000**	18,125,000
Producing, processing and marketing expenses	**12,317,000**	11,506,000
General and administrative expenses	**1,387,000**	878,000
Interest on long term debt	**6,196,000**	4,448,000
Other interest	**761,000**	421,000
	44,666,000	35,378,000
CASH FLOW	**27,264,000**	17,358,000
DEDUCT:		
Depreciation	**4,436,000**	3,837,000
Depletion	**2,623,000**	2,488,000
	7,059,000	6,325,000
NET INCOME FOR THE YEAR (Note 5)	**$20,205,000**	$11,033,000
Net income per share (on weighted monthly average number of shares outstanding during the year)	**$1.88**	$1.07

Consolidated Statement of Retained Earnings

YEARS ENDED DECEMBER 31, 1973 AND 1972

	1973	1972
BALANCE AT BEGINNING OF YEAR	**$ 86,545,000**	$75,512,000
Net income for the year	**20,205,000**	11,033,000
BALANCE AT END OF YEAR	**$106,750,000**	$86,545,000

See accompanying notes.

Consolidated Balance Sheet

DECEMBER 31, 1973 AND 1972

Assets

	1973	1972
CURRENT:		
Cash	**$ 5,827,000**	$ 3,968,000
Accounts receivable	**23,020,000**	16,150,000
Inventories of products at the lower of cost or net realizable value	**13,708,000**	6,835,000
Materials and supplies at cost	**906,000**	848,000
	43,461,000	27,801,000
FIXED (Note 2):		
Property, plant and equipment at cost	**300,893,000**	246,919,000
Less accumulated depreciation and depletion	**58,450,000**	51,693,000
	242,443,000	195,226,000
OTHER:		
Shares of Panarctic Oils Ltd. at cost	**3,772,000**	3,005,000
Deposits and long term receivables (Note 4)	**3,676,000**	2,468,000
	7,448,000	5,473,000
	$293,352,000	$228,500,000

Liabilities

	1973	1972
CURRENT:		
Bank loans (Note 3)	**$ 8,533,000**	$ 8,000,000
Accounts payable	**28,339,000**	11,359,000
Long term debt due within one year	**8,426,000**	10,647,000
	45,298,000	30,006,000
DEFERRED PRODUCTION INCOME	**1,289,000**	3,275,000
LONG TERM DEBT (Note 3)	**94,514,000**	83,079,000
SHAREHOLDERS' EQUITY:		
Capital (Note 4) —		
Authorized — 15,000,000 shares of no par value		
Issued — 11,217,703 shares (1972 - 10,363,509)	**45,501,000**	25,595,000
Retained earnings	**106,750,000**	86,545,000
	152,251,000	112,140,000
	$293,352,000	$228,500,000

On behalf of the Board:

Clifford W. Mickel Director.

Director.

See accompanying notes.

Consolidated Statement of Source and Application of Funds

YEARS ENDED DECEMBER 31, 1973 AND 1972

	1973	1972
SOURCE OF FUNDS:		
Cash flow from operations	$27,264,000	$17,358,000
Issues of long term debt	34,674,000	19,994,000
Issues of capital stock	19,906,000	2,401,000
	81,844,000	39,753,000
APPLICATION OF FUNDS:		
Expenditures for property, plant and equipment	71,602,000	36,636,000
Less amounts contributed through participation agreements (Note 6)	17,326,000	12,849,000
	54,276,000	23,787,000
Reduction of long term debt	8,239,000	10,017,000
Conversion of 5% income debentures into capital stock (Note 4)	15,000,000	—
Retirement of production payments	1,986,000	1,925,000
Increase in deposits and long term receivables	1,208,000	1,742,000
Investment in Panarctic Oils Ltd.	767,000	816,000
	81,476,000	38,287,000
INCREASE IN WORKING CAPITAL	$ 368,000	$ 1,466,000

See accompanying notes.

Auditors' Report

To the Shareholders of
Dome Petroleum Limited.

We have examined the consolidated balance sheet of Dome Petroleum Limited and its subsidiaries as at December 31, 1973 and the consolidated statements of income, retained earnings and source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, except that no provision has been made for deferred income taxes in respect of depreciable assets as explained in Note 5, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1973 and the results of their operations and the source and application of their funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Canada.
March 12, 1974.

CLARKSON, GORDON & CO.
Chartered Accountants.

Notes to Consolidated Financial Statements

DECEMBER 31, 1973

1. BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and all of its subsidiaries. The excess of the cost of investment in subsidiaries over their net book values at dates of acquisition has been allocated to property, plant and equipment in the accompanying balance sheet.

The accounts of the U.S. subsidiaries have been translated into Canadian dollars on the following basis: current assets and current liabilities at the rate of exchange in effect at the year-end, fixed assets and long term debt at historical rates and income and expenses at the average rates for the year. The net gain on translation, which is not material in amount, has been included in income.

2. PROPERTY, PLANT AND EQUIPMENT

	Gross investment at cost	Accumulated depreciation and depletion	Net investment 1973	Net investment 1972
Plants, buildings, pipelines and related facilities	$153,550,000	$28,421,000	$125,129,000	$ 89,973,000
Oil and gas properties	110,030,000	22,296,000	87,734,000	77,226,000
Production facilities and other equipment	37,313,000	7,733,000	29,580,000	28,027,000
	$300,893,000	$58,450,000	$242,443,000	$195,226,000

The companies follow the full-cost method of accounting wherein all costs relative to the exploration for and the development of oil and gas reserves, whether productive or non-productive, are capitalized and depleted on the composite unit-of-production method based on estimated proven reserves of oil and gas. Production facilities and other equipment are also depreciated on the composite unit-of-production method, while plants, buildings, pipelines and related facilities are depreciated on the straight line method at rates designed to amortize the cost of the assets over their estimated useful lives.

Plants, buildings, pipelines and related facilities include $33,529,000 related to natural gas liquids delivery facilities which are presently under construction. Interest of $1,082,000 related to the financing of these facilities has been capitalized during the construction period.

3. LONG TERM DEBT

	1973	1972
First Mortgage Bonds		
5¾% Sinking fund bonds, due 1973	$ —	$ 500,000
5¾% Sinking fund bonds, due 1978	1,465,000	1,764,000
5¾% Serial Bonds (U.S. $8,756,000), due 1984	9,446,000	10,051,000
6½% Bonds, due 1985	737,000	777,000
Term bank loans, with interest varying from ½% to 1% in excess of the prevailing prime bank rate		
Canadian loans, due 1975 to 1983	72,244,000	47,461,000
U.S. loans, due 1979 to 1983 (U.S. $17,820,000)	18,348,000	16,173,000
Debentures		
6% Sinking fund debentures	—	2,000,000
5% Convertible income debentures	—	15,000,000
Other	700,000	—
	102,940,000	93,726,000
Less amounts due within one year	8,426,000	10,647,000
	$ 94,514,000	$83,079,000

The Company has a bank loan agreement pursuant to which it may borrow, as required for financing construction of its natural gas liquids transportation system, up to a maximum of $45,000,000. At December 31, 1973 an amount of $26,000,000 had been drawn down under the agreement. The loan bears interest at 1% above the prime bank rate. As security for its obligations under the above agreement the Company has issued a collateral demand debenture in the principal amount of $45,000,000, which represents a first floating charge on the natural gas liquids transportation system, and has pledged product inventories and assigned certain amounts due under a natural gas liquids marketing agreement.

Other term bank loans are secured by demand debentures which represent first floating charges on various plants and related facilities and by certain producing properties and pipeline facilities.

Current bank loans are secured by an assignment of accounts receivable and an undertaking to provide oil and gas security if requested.

Approximate instalments of long term debt (including sinking fund payments) due in each of the years 1975 to 1978 are: 1975 - $12,935,000; 1976 - $13,105,000; 1977 - $13,260,000; 1978 - $11,596,000.

4. CAPITAL

854,194 shares of the Company's capital stock were issued during the year as follows:

534,567 shares on the conversion of the 5% Convertible Income Debentures
309,475 shares on the exercise of options for $4,672,000
7,700 shares under the Stock Purchase Plan for $235,000 and
2,452 shares in exchange for shares of a subsidiary.

Under the Stock Purchase Plan, established in 1972, the Company has agreed to advance funds to a Trustee to be used by the Trustee for the purchase and immediate resale to key employees of shares of the Company's capital stock at the average sale price of the Company's shares on the date of the transaction. In addition the Company has made interest-free loans to employees to enable them to purchase shares from the Company under stock option agreements. At December 31, 1973 an aggregate amount of $3,381,000 was receivable by the Company under the above arrangements and is included in "Deposits and long term receivables" in the accompanying balance sheet.

59,925 shares of the Company's capital stock were reserved at December 31, 1973 as follows:

42,300 shares for sale under the Stock Purchase Plan
8,924 shares for options granted to employees exercisable on various dates to April 25, 1981 at prices ranging from $4.27 to $27.08 per share and
8,701 shares for the shares of a subsidiary not yet presented for exchange.

5. INCOME TAXES

For Canadian income tax purposes the companies are entitled to claim deductions for drilling, exploration and lease acquisition costs and capital cost allowances (depreciation) in amounts which exceed the related depletion and depreciation charges reflected in the accounts, thus eliminating income taxes otherwise payable for the year ended December 31, 1973, and at that date unclaimed drilling, exploration and lease acquisition costs and capital cost allowances in the aggregate of $110,400,000 were available to be applied against future taxable income. The companies make no provision for deferred income taxes in respect of such excess deductions since they believe that tax allocation accounting, as recommended by the Canadian Institute of Chartered Accountants, is not appropriate in the oil and gas industry.

If the tax allocation basis had been followed deferred taxes would have been provided in 1973 in the amount of $8,500,000 ($.79 per share) and in 1972 in the amount of $4,554,000 ($.44 per share) and net income for these years would have been reduced accordingly. Of the foregoing, $3,116,000 ($.29 per share) in 1973 and $2,115,000 ($.20 per share) in 1972 are in respect of depreciable assets. The accumulated deferred income tax credit for current and prior years would have been approximately $39,465,000 at December 31, 1973 ($30,965,000 at December 31, 1972).

Various provincial securities commissions in Canada have recently questioned the appropriateness of not following tax allocation accounting and the industry has undertaken to prepare and submit a background study to the commissions by February 1974. The commissions have indicated that unless, as a result of the study, they are satisfied with the basis for departing from such procedures, companies in the oil and gas industry should be prepared to adopt tax allocation accounting effective in 1974.

6. PARTICIPATION AGREEMENTS

Under an agreement with the subsidiaries of three major United States gas utilities, these companies agreed to contribute $30,000,000 towards the cost of drilling exploratory wells on the Company's acreage in the Arctic Islands. The companies will earn a 1% undivided interest in the blocks drilled upon and the first right to purchase 75% of any gas discovered. The companies' contributions under this program to December 31, 1973 were $10,830,000.

In addition Columbia Gas Development of Canada Ltd., has earned an undivided 7½% interest in the Company's exploratory acreage by contributing $30,000,000 towards a joint exploration and land acquisition program.

7. DIRECTORS AND OFFICERS

The eight members of the Board received $3,265 for their services as directors. Four of the directors are also officers. The aggregate remuneration paid in 1973 to the fourteen officers was $311,511.

Ten Year Review

Financial

[DOLLAR AMOUNTS IN THOUSANDS EXCEPT PER SHARE FIGURES]

YEAR	Gross Income [after royalties]	Cost of Product	Operating Expenses	General and Administrative Expenses	Interest	Cash Income after Interest	Depreciation, Depletion and Amortization
1973	71,930	24,005	12,317	1,387	6,957	27,264	7,059
1972	52,736	18,125	11,506	878	4,869	17,358	6,325
1971	41,510	11,243	9,573	728	4,064	15,902	5,699
1970	28,589	4,748	7,186	403	3,134	13,118	5,091
1969	23,592	2,109	5,638	273	2,796	12,776	4,389
1968	24,561	1,905	5,322	361	2,521	14,452	4,374
1967	21,769	2,275	4,669	481	2,183	12,161	3,800
1966	17,848	1,665	4,165	520	1,780	9,718	3,294
1965	15,243	899	3,580	359	1,423	8,983	3,210
1964	13,708	336	3,174	340	1,187	8,671	2,902

Operating

YEAR	PRODUCTION					GROSS RESERVES ***	
	Average Daily Oil, N.G.L. and O.E.G. [net barrels]	Oil and Natural Gas Liquids		Gas		Est. Remaining Oil and N.G.L. [barrels]	Est. Remaining Gas [billion cubic feet]
		Net Barrels per Year	Net Barrels per Day	Billion Cubic Feet per Year	Million Cubic Feet per Day		
1973	37,498	11,130,000	30,493	49.7	136.2	117,000,000	1,740
1972	34,955	10,255,000	28,020	49.5	135.3	123,200,000	1,350
1971	28,185	7,696,000	21,084	50.7	138.9	124,500,000	1,297
1970	25,562	6,513,000	17,843	54.1	148.3	130,000,000	1,306
1969	24,079	6,231,000	17,071	48.7	133.4	132,700,000	1,184
1968	24,615	6,259,000	17,102	51.8	141.6	82,400,000	1,100
1967	21,238	5,758,000	15,775	43.7	119.7	70,400,000	1,011
1966	18,280	4,972,000	13,623	37.2	101.9	67,500,000	919
1965	16,532	4,445,000	12,178	36.8	100.8	61,500,000	829
1964	15,896	4,203,000	11,484	35.7	97.5	58,000,000	793

* Excludes extraordinary items.
** Includes investment in Panarctic Oils Ltd.
*** Excludes gas reserves in the Arctic Islands and heavy oil reserves in the Athabasca Oil Sands and at Hughenden, Alberta.

Net Income *	Net Income per Share	Average Shares Outstanding	Long Term Debt	Exploration Expenditures **	Development Expenditures	Plants, Pipe-lines & Related Facilities Expenditures	Total Capital Expenditures **
20,205	1.88	10,745,000	94,514	27,691	5,436	39,242	72,369
11,033	1.07	10,316,000	83,079	15,525	3,674	18,253	37,452
10,203	1.00	10,235,000	73,102	8,959	1,596	18,991	29,546
8,027	.79	10,153,000	74,377	7,466	1,237	30,865	39,568
8,387	.83	10,098,000	42,637	10,453	4,734	14,010	29,197
10,078	1.00	10,045,000	38,228	9,905	4,735	4,068	18,708
8,361	.84	9,945,000	29,270	11,626	4,917	4,927	21,470
6,424	.65	9,907,000	23,978	5,973	5,806	1,796	13,575
5,773	.58	9,899,000	21,264	3,299	5,343	4,138	12,780
4,085	.41	9,852,000	18,096	7,193	3,706	1,775	12,674

WELLS DRILLED				NET WELLS		ACREAGE		
Gross	Working Interest Gross	Working Interest Net	Royalty Interest	Oil	Gas	Gross Working Interest	Net Working Interest	Gross Royalty Interest
143	126	71.6	17	431	306	42,297,000	20,981,000	43,383,000
103	64	29.8	39	436	251	43,268,000	23,656,000	45,191,000
81	57	19.3	24	426	228	22,112,000	16,403,000	236,000
92	64	45.9	28	424	222	22,256,000	17,209,000	240,000
75	58	38.3	17	426	187	23,778,000	19,127,000	276,000
134	116	87.3	18	414	168	19,593,000	15,932,000	290,000
102	88	68.5	14	359	131	13,268,000	11,004,000	279,000
104	97	67.0	7	335	117	7,504,000	5,213,000	283,000
100	88	65.7	12	309	99	6,065,000	3,829,000	211,000
70	61	43.1	9	269	83	6,746,000	4,195,000	165,000

N.G.L. - Natural Gas Liquids
O.E.G. - Oil Equivalent of Gas

Dome Petroleum Limited
1973 Annual Report

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